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ANNUAL REPORT

of the

GENERAL SHOE CORPORATION

FOR THE YEAR ENDED OCTOBER 31, 1938

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NASHVILLE
TENNESSEE

Corp. File

Annual Report of General Shoe Corporation
Year Ended October 31, 1938

IN THIS BRIEF REPORT your attention is called to the more important items in our statement of operations during the past fiscal year. There is also included a Balance Sheet showing the condition of the Corporation at the end of the year, income account and surplus account for the period covered by the report, and general comment on operations during the year.

Net Sales to Customers during the year amounted to $13,257,663. Net Sales to Customers during the previous year amounted to $14,039,436. Thus the dollar sales this year were 5.6% less than the previous year. A good part of this decrease is accounted for by the lower prices at which shoes were sold this year. Net Sales in pairs showed a reduction of 1.5% from the previous year, and it is interesting to note that during this same twelve months period total shoe production in pairs of the shoe industry as a whole showed a decrease of 14.5%.

In addition to our Net Sales to Customers, we had business transactions in the company consisting of materials that go into our products that we have manufactured ourselves and also consisting of other services which had a total value for the year of $1,782,291. Thus the total volume of business transacted by the company was $15,039,954.

Earnings per share on the Common Stock outstanding October 31, 1938, after Preferred Dividends, amounted to $1.27 per share. This compared with $1.54 during the previous year. As of October 31, 1938, there were 479,388 shares outstanding compared with 467,384 shares the year before.

Total Net Profits this year amounted to $647,670, compared with Net Profits during the previous year of $758,252. Lower profits during the current year are accounted for chiefly by the loss taken on raw materials and finished shoe inventory during the early part of the year.

The Net Worth of the Corporation is now $4,887,024, compared with last year $4,523,945. The net Working Capital has risen to $3,821,367, as compared with $3,474,058 at the end of the previous year.

The Current Ratio which compares Current Assets with Current Liabilities is 9.18 to one as compared with 7.13 to one last year.

Cash amounting to $606,949 was in excess of total Current Liabilities of $466,905.

Dividends paid during the year amounted to 85c per share on the Common Stock. This compares with $1.13¾ per share during the previous year. The regular dividends were paid on Preferred Stock.

Provision has been made for Federal taxes and all other taxes. Reserves which are believed to be ample have been set up for doubtful accounts, collection expense, and discount, and it is believed that adequate provision has been made for depreciation. Values placed on inventories represent cost or market, whichever is lower.

As is customary, commitments have been made for a good portion of the raw materials needed for the coming season. These commitments are considerably below market prices.

On August 23, 1938, Mr. James Franklin Jarman, Chairman of our Board of Directors, and founder of this Corporation, passed away. Words cannot express the feelings of those left in the business on whom he had placed the responsibility of carrying forward the institution that he founded. He established this Corporation on a sound foundation of character, and every executive of the business feels the responsibility to carry on in the right way.

In May of 1938, the Corporation acquired certain physical assets of the Hoge-Montgomery Shoe Company of Frankfort, Kentucky. These physical assets consisted of raw materials, shoes, machinery and equipment, and in addition the intangible assets—good will, etc.—were included in the trade. The factory building which this company used has been leased by the Corporation, new management has been placed in charge of operations, and this plant is being operated as a separate division of this company, under the name of Barrett Shoe Company. Results during the first few months have been very gratifying, and a good future is indicated for this new division of the business.

During the past year, the town of Pulaski, Tennessee, has built under our design and direction a factory building which they have leased to us for a nominal figure for a good term of years. In August of 1938 our company occupied that building, and is now producing a line of service shoes there. Good progress has been made in this new direction, production has been increased constantly, and as a matter of fact, at the present time sales are running ahead of production.

It is a pleasure to announce that during the past year Mr. James Preston Saunders, Assistant Vice President of the Corporation, in charge of purchasing, has been elected a Director of the Corporation.

Prospects for the coming year look very good. The salesmen out with the new Spring lines are sending in good orders, showing quite an increase over the previous year. Hide and leather markets, however, have advanced very drastically, and if this condition should continue,

making necessary further advances in shoe prices, it may slow up the increase in business. On the whole, however, conditions look promising, and although there are many factors which could quickly change the outlook, the management of the company is optimistic. Furthermore, as has been said in previous reports, the Corporation is flexible and can quickly adapt itself to changing conditions. Close control is maintained over all operations. It is believed that operations of the company can be adjusted to new situations as well as others in the industry.

The statements submitted in this report in summary form have been certified by Peat, Marwick, Mitchell & Company, Certified Public Accountants.

MAXEY JARMAN, *President.*

December 1, 1938.

GENERAL SHOE CORPORATION

Consolidated Balance Sheet
As at October 31, 1938

ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 606,949.14
Customers Accounts Receivable, less Reserve for Cash Discounts and Doubtful Accounts		1,688,639.87
Miscellaneous Accounts Receivable		43,929.72
Inventories:		
Manufactured Merchandise	$ 923,045.94	
Raw Materials, Merchandise in Process, and Supplies	1,025.707.11	1,948,753.05
Total Current Assets		$ 4,288,271.78
Employees Stock Purchase Accounts (Under Installment Plans for purchase of Common Stock)		200,789.64
Real Estate, Buildings, Machinery and Equipment, and Improvements to Leased Properties	$1,430,676.30	
Less—Reserve for Amortization and Depreciation	372,325.66	1,058,350.64
Goodwill, Patents, and Trade-Marks		1.00
Total		$ 5,547,413.06

LIABILITIES

Current Liabilities:		
Accounts Payable for Merchandise, Expenses, Etc.		$ 63,749.97
Officers and Employees Balances and Deposits		136,911.90
Accrued Royalties, Payrolls, and Taxes		143,092.58
Provision for Income Taxes		123,150.20
Total Current Liabilities		$ 466,904.65
Provision for Prior Years Income Taxes—in dispute		85,766.72
Reserves for Retirement, Insurance, and Contingencies		107,717.65
Capital Stock:		
Preferred Stock without Par Value—Authorized and Issued or to be Exchanged for old shares—99,260 shares callable at $7.50 per share and having a Liquidating Value of $5.00 per share subject to Cumulative Dividends of 40c per share	$ 496,300.00	
Common Stock—Par Value $1.00 per share, Authorized 1,200,000 shares, Outstanding or to be Exchanged for old shares—479,388 shares	479,388.00	
Paid In Surplus	1,791,957.37	
Earned Surplus	2,119,378.67	4,887,024.04
Total		$ 5,547,413.06

Current Assets	$ 4,288,271.78
Current Liabilities	466,904.65
Working Capital	$ 3,821,367.13
Current Ratio	9.18 to 1

GENERAL SHOE CORPORATION

Consolidated Profit and Loss Account
For the Year Ended October 31, 1938

Net Sales of Shoes and Other Manufactured Merchandise		$13,257,663.09
Cost of Shoes and Merchandise Sold, after charging Operating Expenses, Maintenance and Depreciation of Physical Properties, Selling and Administrative Expenses, Credit Losses, and Discount on Sales, less Discount on Purchases and Miscellaneous Income		12,510,792.94
Net Income before Income Taxes		$ 746,870.15
Provision for Income Taxes		99,200.00
Net Income for Year		$ 647,670.15

CONSOLIDATED EARNED SURPLUS ACCOUNT

Consolidated Earned Surplus, as at October 31, 1937		$ 1,915,705.52
Consolidated Net Income, for the year ended October 31, 1938		647,670.15
		$ 2,563,375.67
Deduct—Dividends Paid—Cash:		
Preferred—40c per share	$ 39,704.00	
Common—85c per share	404,293.00	
Total Dividends Paid		443,997.00
Consolidated Earned Surplus, as at October 31, 1938		$ 2,119,378.67

GENERAL SHOE CORPORATION,
Nashville, Tennessee.

We have made an examination of the Consolidated Balance Sheet of the General Shoe Corporation and Subsidiary Companies as at October 31, 1938, and of the Consolidated Profit and Loss and Surplus Accounts for the year ended on that date. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related Consolidated Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their consolidated position at October 31, 1938, and the results of their operations for the year.

St. Louis, Missouri
November 19, 1938.

PEAT, MARWICK, MITCHELL & COMPANY.

COMMENT ON OPERATIONS

THE MANAGEMENT of the General Shoe Corporation has at least a threefold responsibility, to the stockholders—the owners of the business—to the employees of the business, and to the public that is served by the business. The management has a function that is entirely separate from the ownership function which is represented by the stockholders. It is generally recognized that the stockholders should have a very definite interest in the good management of their business. However, it is just as important to the individual employee of a business that the business of which he is a part has good management.

A well managed business—which means efficient production, the elimination of as much waste as possible, and the proper policies of operation—all will insure to the individual employee fair treatment, reasonable earnings as high as are practicable, and as steady operation of the business as can be maintained.

Certainly also the general public will benefit from good management, because well managed industry in this country can do more to raise the standard of living than any other one factor.

It is the purpose of this general comment from the management on the operations of the business to present as much information as is pertinent in as brief a way as possible, and to provide information on the trends of various policies, and on the problems that are confronting our business.

There are certain underlying factors in our business which do not change. We believe that to be successful we must build on a foundation of Character. The men of our organization must be men of high principles and our organization must maintain the highest standards of integrity and square dealing and honesty. Furthermore, it is our belief that we must render a real service. That is the only justification for the existence of our corporation—that we do render a real service to the public. It is our purpose too to build an enduring organization—not just a business that will last for a few years, but an institution founded on the solid rock of character that recognizes its responsibility to render service, and that will generate within itself the life-blood that will keep it up-to-date and ready at all times to meet present-day conditions.

The company has consistently maintained a fine relationship with its employees. A paternalistic program has been avoided as it is be-

Employee Relations lieved that every individual should have the right and opportunity to direct his own life insofar as is possible. The fine relationship that has existed between the management and employees is based on the principle of giving employees a square deal, giving them an opportunity to prove themselves, and insofar as possible, giving them job security and as steady work throughout the year as can be maintained.

No general wage cuts have been made during the past year, although a number of shoe manufacturers did see fit to make wage reductions in a general way. Although the past year has had some difficult situations, it has been possible to operate on a fairly steady schedule, providing consistent work for the large majority of the employees.

The Wage and Hours Act went into effect the latter part of October. Other than minor adjustments in hourly schedules for watchmen, maintenance men, and miscellaneous employees of this type, this Act did not affect our company. The minimum wage provision did not affect our operations—even on our apprentice rate. For years our lowest rates have been in excess of the requirements of the Wage and Hours Act. The wages paid by any concern are a test of the management of that company. We feel that our company measures up very well in this respect.

Nevertheless in the opinion of the management, the attempt of the Federal government to control operations in manufacturing businesses all over the country can only result in confusion and generally unsatisfactory conditions for the country as a whole. The only way that this country can be prosperous, and the only way that the standard of living in general can be raised is by the production of more goods—by more work—by more efficient production. Raising wages in itself does not produce more purchasing power, because it merely adds to the cost of the product so that the wage dollar cannot buy any more than it did before, unless it should be at the expense of the farmer or other worker of this sort.

Purchasing power can be increased only by the production of more goods at lower cost, and that is the means to an increased standard of living. The maladjustment between industrial wages and farm wages and small local businesses is one of the causes of unemployment in the country today. Certainly in this country we cannot produce more wealth with less work, and a rigid bureaucratic control such as the Wage and Hours Act can eventually lead only to trouble.

The company continues to give support to personnel work, including a benefit association which provides for employees during sickness, cooperation on hospitalization and medical expense, trained nurses in all plants, paid vacations, inspection and welfare committees, credit

unions, suggestion system, athletic program, and in all other ways that it has been found practical to benefit employees.

Safety Program

Factories of the company continue to set up fine records on accident prevention. Several of the factories have gone through the year without any lost time accidents, and the insurance company that carries our workmen's compensation insurance advises that we have made the best record of any shoe manufacturer in the United States.

Training Program

Special classes are maintained right along looking toward the training of young men for supervisory and executive positions in the company. It is vitally necessary for every company to have well-trained men to take on responsible positions as they develop. Some of these groups meet weekly—some of them are receiving special training in the technical end of shoemaking, and some are being transferred from one department to another to give them as broad experience as possible. Part of the training program is a system of weekly conferences with executives of the Corporation. In a large company with a large number of employees frequently the younger men have very little contact with the officers of the company, and through these brief weekly individual conferences, executives of the company come to know the younger men, know their possibilities, pass on to them the policies of the company, and the young men in these contacts absorb a part of the spirit and understand more of the problems of the business.

Kind of Shoes Produced

Several additional types of shoes have been added to the kinds manufactured by the company during the past year. A line of work shoes is now produced in the plant at Pulaski, Tennessee, and several unusual features have been adapted to this line of work shoes which have been received by dealers with a great deal of favor. The company also through the factory operated at Frankfort, Kentucky, now produces a line of popular priced women's style shoes. These shoes retail at around $4.00 and tap a very large market which has not previously been touched by this company. Practically all of these shoes are made to the customer's order, and so there is very little style risk, although it is very important to have our organization watching the trend of styles so that they can present at all times the very latest patterns. Also some cheaper types of men's shoes have been added to the line. Thus we are producing a broad range of men's shoes retailing from $2.00 to $7.50, a line of boys' shoes, a line of work shoes, a line of growing girls' and women's sport and walking type oxfords, and a line of women's novelty shoes. In addition, we are producing riding boots, field boots, and cowboy boots. This broad range of coverage opens a wide field for us.

Shoes are shipped from store rooms in Nashville, Tennessee, Atlanta, Georgia, and Frankfort, Kentucky. A large stock department is carried

Sales Methods

in Nashville and a smaller department in Atlanta. Some few shoes are shipped from stock at Frankfort. The bulk of our business is done through regular independent retail merchants, although a portion of our business is done through chain stores and larger outlets on shoes made up to their own specifications and under their own brand name. Also in certain larger cities the company has established some retail stores to give additional distribution in the larger centers on its products. National advertising continues on the important brand names that are used by the company, and these advertising programs rank very high in the industry. All the advertising is now handled by the J. Walter Thompson Company, advertising agency, through their Chicago, Illinois, office.

Export Division

The export division of the business shows a nice increase over the previous year with a net gain of over 18% in sales. Total volume of shoes exported from this country is not large, but we get a good share of this business as our products stand very well and we have excellent connections with customers in quite a number of foreign countries.

Trend of Prices

During the early part of the past fiscal year hide and leather prices declined very drastically. There was some distress selling of merchandise and shoe prices also fell off during this same period. Beginning in the late Spring, however, hide prices have advanced very considerably, and leather prices have followed hide prices to a certain extent, although still further advances are yet due to come in leather prices. Our company was able to make advantageous purchases, and it has been possible to make very attractive prices to our trade. At the same time we have had reasonable margins of profit. Some advances were placed on certain of our lines during September, and with hide and leather markets where they are at the present time, still additional advances on shoes are indicated for some time during the next few months. It would be very desirable for the industry if hide and leather prices could get back on a reasonable basis so that shoe prices would not need to be advanced out of proportion. However, the statistical position of the hide and leather market is very strong and the price structure is quite firm.

Operating Methods

It has been the policy of the company from the very beginning to be as completely informed on the operations of this business as possible. A complete physical inventory is taken each month, and complete cost reports, including all operating material, is made available on the second working day of each month, studying the operations of the previous month. This makes it possible to have very close control over all operations and keeps executives informed of any condition that needs particular attention.

Operations of the business are decentralized to a considerable degree so as to provide definite responsibility for the executives in the various

divisions. And yet there is a close contact between each of the divisions of the business, providing for uniform policies and cooperative efforts along the line.

During the past year the company has gone still further into the production of some of the materials used in the manufacture of our shoes. Automatic machinery has been purchased and installed for the production of cardboard cartons in which shoes are packed. This has resulted in improved cartons and considerably lower cost, and the operation is going along very successfully. It is expected that the manufacture of these materials will be gradually extended from time to time where it seems desirable and proper. Overhead is charged into the manufacture of these materials as well as a charge for the invested capital. The manufacture of each of these products is in competition with outside purchases, so that we can be sure that our costs are in line at all times.

During the past year this company has started in a small way a research department for improvement of materials going into the shoes, to investigate the possibility of producing new materials ourselves, and to make new developments.

During August, 1938, the National Labor Relations Board suggested a compromise of their complaints against our company in regard to matters that had arisen in connection with our Atlanta factory in 1937. The National Labor Relations Board was willing to drop its contentions in the matter and the company stated that it intended to comply with the Wagner Act in every way.

The Federal government has proposed an additional income tax arising out of certain operations in 1937 which involves an amount of $85,767. As will be noticed from our balance sheet, a reserve has been set aside to cover this item. However, in the opinion of our tax counsellor, and our accountants, it is believed that the company is not liable for this amount.

Cost of Government

The tax burden continues to be an increasingly heavy one on all businesses. This cost of government is becoming an increasing part of the overhead which increases the cost of shoes, raising the selling prices, which holds down wages, and slows down and stifles incentive for progress. However, tax reduction as such is not the root of the matter. Sentiment must be aroused against the increasing expenditures of both federal and local governments, benefits to certain classes of citizens, and against the waste that is apparent on every side. After the money is spent, then taxes must be raised. Protests must be made at the beginning against the expenditure of money. The rate at which our government, by its over-expenditures, is rushing toward bankruptcy should be alarming to every citizen.

Number of Stockholders

At the end of our fiscal year we had approximately 1250 stockholders. Quite a number of these are employees of the company, and the company has encouraged employees to have a part ownership in the business, and has worked this out for them on a plan enabling them to purchase stock out of their income.

Prospects

Salesmen started out with their Spring samples about the twenty-fifth of October, and at the rate orders are coming in for Spring delivery, prospects are very encouraging. Orders are coming in at a much higher rate than a year ago, and reports from dealers and the retail trade in general indicate that good business is expected during the coming months. However, this is not such as to indicate a boom condition. In many sections of the country, there is still great unemployment. Farm prices are very low, and in some cases merchandise stocks are still heavy. However, this company has lines of merchandise that are attractively priced, well balanced in value and designed for the very latest trend. The company enjoys a splendid standing throughout the trade—a standing that represents fair dealing and good merchandise. Aggressive sales policies are pursued on every front and new plans and new ideas will show results for the customers of the products of the company.

The company has a splendid organization. Supervisors and executives are well trained, full of energy, and all show a fine cooperative spirit. Credit is due the fine organization for the splendid progress that has been made and for the fine prospects that lie ahead for our products.

GENERAL SHOE CORPORATION

NASHVILLE, TENNESSEE

DIRECTORS

William M. Blackie	J. Harlan Lawson
Henry W. Boyd, Jr.	George W. Noland
Earle T. Bumpous	James P. Saunders
W. Maxey Jarman	William H. Wemyss

OFFICERS

W. Maxey Jarman ..... *President*
William H. Wemyss ..... *Executive Vice President*
J. Harlan Lawson ..... *General Manager*
William M. Blackie ..... *Vice President*
Earle T. Bumpous ..... *Vice President*
George W. Noland ..... *Vice President*
Henry W. Boyd, Jr. ..... *Secretary and Treasurer*
James P. Saunders ..... *Assistant Vice President*
Charles W. Cook ..... *Assistant Vice President*
Houghton D. Vaughn ..... *Assistant Treasurer*
Otis C. Williams ..... *Assistant Secretary*

Registrar and Transfer Agent—Third National Bank, Nashville, Tenn.

Annual Meeting of Stockholders—March 6, 1939.

FACTORIES	SALES DIVISIONS
Nashville, Tennessee	Jarman Shoe Company
Gallatin, Tennessee (Two)	Richland Shoe Company
Tullahoma, Tennessee	Davidson Shoe Company
Lewisburg, Tennessee	Belle Meade Shoe Company
Atlanta, Georgia	Dominion Shoe Company
Pulaski, Tennessee	Edgewood Shoe Factories
Frankfort, Kentucky	Kingston Shoe Company
	Statler Shoe Company
	Barrett Shoe Company